



Rosalind M. Hewsenian
Managing Director

October 24, 2005

Mr. Mark Anson
Chief Investment Officer
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Spring Fed Pool – Environmental Equity Managers

Dear Mark,

You requested Wilshire's opinion with respect to the selection of the managers interviewed and evaluated in the Environmental Equity Spring Fed Pool. Wilshire has independently reviewed each firm and participated in the interviews with Staff. We support Staff's recommendation for the constituents of the pool of managers.

Managers Staff recommends for the Pool

The managers Staff recommends for the pool vary with respect to the stability of their organizations, the quality of their investment products and their fit specifically for CalPERS. Several of the firms that were interviewed focus only on environmental and socially-conscious investing while others use an environmental "overlay" to a non-environmental approach. Commentary on each of the firms is provided below.

AXA Rosenberg

AXA Rosenberg manages a domestic product being considered for the pool. AXA Rosenberg, located in Orinda, CA, is a majority-owned subsidiary of AXA Investment Managers SA and maintains autonomy in conducting its business and its investment strategies. AXA Rosenberg uses a quantitative approach to manage this domestic product. The firm creates a value for each company in the universe by building a market value for each line of business by comparing it to stocks of companies in similar industries. By comparing this "fair value" to the stock price, AXA Rosenberg finds undervalued companies. In addition, AXA Rosenberg seeks to avoid "value traps" by forecasting next year's earnings and avoiding companies with no or slow earnings growth. AXA Rosenberg uses tight risk controls to maximize expected return with minimum deviation from the benchmark.

AXA Rosenberg's environmental approach is exclusionary. Put another way, AXA Rosenberg, in conjunction with its client and/or an outside service provider, creates a list

of restricted securities. AXA Rosenberg does not monitor a company's environmental activities as some other providers do. Instead the firm relies on the restricted list to leave them with an environmentally-friendly universe from which to select securities. AXA Rosenberg does not have a dedicated environmental restricted list provider and would need to contract with one should the firm be funded.

AXA Rosenberg currently manages an international portfolio for CalPERS.

Brandywine Asset Management

Brandywine manages an international product being considered for the pool. Brandywine is an independently operated subsidiary of Legg Mason located in Wilmington, DE. The firm uses a bottom-up, value-oriented approach. Brandywine seeks to identify stocks that are selling below their normal valuation levels based on price/earnings, price/cash flow and price/book value ratios. Risk is controlled at the security level by conducting a "worst-case" analysis prior to the purchase of a stock. The process produces a portfolio that spans all capitalization ranges and exhibits strong value characteristics.

Brandywine incorporates environmental research from Boston Common Asset Management, a global socially-conscious investment management firm, into its process rather than operating with a restricted list. As Brandywine's analysts are examining different companies for their investment worth, Boston Common is analyzing the company's environmental track record and management's attitudes toward the environment.

New Amsterdam Partners

New Amsterdam manages a domestic product being considered for the pool. New Amsterdam, located in New York City, is 100% employee-owned and is a registered Women-Owned Business Enterprise in the state of New York. New Amsterdam combines quantitative screening with fundamental research to identify growing but reasonably priced portfolio companies. New Amsterdam builds cash flow models and performs sensitivity analysis to validate a security's expected return and the rationale for owning that security in the portfolio.

New Amsterdam include in its fundamental research an examination of each company's environmental, social, and sustainability factors. It utilizes the KLD research database as a resource and also closely examines each company's regulatory filings for overlooked pieces of information that could potentially add value. It focuses on current practices that may be damaging to the environment as well as how the company has addressed pollution and environmental issues in the past.

Piper Jaffray

Piper Jaffray provides a domestic product being considered for the pool. Piper Jaffray is a publicly traded company located in Minneapolis, MN. Piper Jaffray serves as the “product advisor” for this environmental strategy which combines environmental research and analysis by KLD, environmental screening by Piper Jaffray and investment management techniques by INTECH. Staff and Wilshire discussed that the various layers of responsibilities in this relationship may result in increased fees.

INTECH uses a mathematical, volatility-capture strategy that focuses on building portfolios of high volatility stocks with low correlations. Risk controls include screens for liquidity and bankruptcy and limits on how far a specific stock’s weight may be from its weight in the index.

KLD analyzes and rates companies based on environmental criteria. Piper Jaffray uses data from KLD and from the firm’s own Social Investment Analysts to produce a restricted list. INTECH is notified of which securities are restricted and removes those securities from the investable universe.

INTECH manages a domestic enhanced index portfolio for CalPERS, although the benchmark is different.

State Street Global Advisors

State Street Global Advisors (SSGA) manages both a domestic product and an international product being considered for the pool and is headquartered in Boston, MA. SSGA is a wholly owned subsidiary of State Street Corporation which is a publicly traded company. Both the domestic strategy and the international strategy are quantitatively driven using valuation, growth and sentiment as key drivers of the investment process. Both strategies have stringent risk controls which should help limit tracking error.

Innovest Strategic Value Advisors, an affiliate of SSGA, provides “eco-efficiency” ratings for each company in the investable universe. The rating is based on an analysis of environmental criteria and allows for companies to be compared within an industry or across industries.

SSGA manages CalPERS’ passive international portfolio.

Conclusion


The six firms that Staff and Wilshire are recommending for the pool use a variety of approaches to equity investing in an environmentally responsible manner. While the depth of belief in environmental investing varies from firm to firm, it is clear that each

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firm has given considerable thought as to how to successfully implement those beliefs within the investment management processes.

Should you require anything further, please do not hesitate to contact us.

Sincerely,

A handwritten signature in cursive script, reading "R. M. Hensenian". The signature is written in black ink and is positioned below the word "Sincerely,".